

No. 09-15932

In the
UNITED STATES COURT OF APPEALS
FOR THE NINTH CIRCUIT

MDY INDUSTRIES LLC AND MICHAEL DONNELLY,

Plaintiffs-Appellants,

v.

BLIZZARD ENTERTAINMENT, INC. AND VIVENDI GAMES, INC.,

Defendants-Appellees,

On Appeal from the United States District Court for the
District of Arizona
No. 06 CIV. 2555
Honorable Judge David G. Campbell

BRIEF OF *AMICUS CURIAE* PUBLIC KNOWLEDGE
IN SUPPORT OF REVERSAL

Brian W. Carver
California State Bar No. 244878
University of California, Berkeley
School of Information
102 South Hall
Berkeley, CA 94720-4600
(510) 643-1469
Counsel for Amicus Public Knowledge

Sherwin Siy
Jef Pearlman
Public Knowledge
1875 Connecticut Ave. NW
Suite 650
Washington, DC 20009
(202) 518-0020

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CORPORATE DISCLOSURE STATEMENT

Pursuant to Federal Rule of Appellate Procedure 26.1, *Amicus* states that it has no parent companies, nor do any publicly held companies own ten percent or more of its stock.

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INTEREST OF AMICUS CURIAE

Amicus Public Knowledge is a non-profit public interest 501(c)(3) corporation, working to defend citizens' rights in the emerging digital culture. Its primary mission is to promote innovation, protect the legal rights of all users of copyrighted works, and ensure that any copyright legislation remains balanced and does not slow technology innovation, unduly burden free speech, shrink the public domain, or prevent fair use.

The decision below affects not just two companies and their customers, but purchasers and users of all software. If successful, Blizzard's attempt to use a boilerplate "license" to sidestep Congress's carefully balanced consumer protections laid out in 17 U.S.C. § 117 will change a legal framework which protects lawful owners of copyrighted software into one which lets software developers subject users to copyright infringement penalties long after a lawful purchase has occurred. Because copyright infringement carries severe penalties, including *minimum* statutory damages of \$750. *See* 17 U.S.C. § 504(c)(1). Such a legal regime will do tremendous harm to the innovation, creativity, and user rights that Public Knowledge seeks to protect.

Amicus files this brief with the consent of all parties under Federal Rule of Appellate Procedure 29(a).

INTRODUCTION

Blizzard, the maker of the popular fantasy computer game “World of Warcraft” (“WoW”), espouses a legal theory that would make potential copyright infringers of virtually every software user. Blizzard’s claims of infringement hinge upon an accident of computing technology—that using a computer program necessarily requires the duplication of its contents within a computer’s short-term random-access memory (RAM). This is the sole foundation for Blizzard’s secondary copyright claims against Defendant MDY—the users of MDY’s Glider software make no derivative works, public performances, public displays, or distributions of Blizzard’s WoW software, and the only reproduction made is the same one necessary for any WoW user to play the game. Fortunately for software users, 17 U.S.C. § 117 removes this automatic and necessary duplication from the scope of the copyright holder’s exclusive rights, and defeats Blizzard’s claims.

Blizzard, however, disregards § 117, insisting that none of the millions of purchasers of WoW software are owners of the DVDs on which that software is delivered. According to Blizzard, the millions of purchasers are mere lessees, and the “End User License Agreement” (“EULA”) that accompanies the DVDs is the only thing shielding the purchasers from copyright liability each time they launch the WoW software. In doing so, Blizzard is attempting to “license” rights it does

not have, and is thus demanding copyright relief for activities that can, at most, only be breaches of contract.

The central question posed in this appeal is one that is of critical importance not only to MDY and to purchasers of WoW software, but also to consumers who purchase all manner of copyrighted works. Blizzard's effort, through the use of boilerplate in a license agreement, to trump § 117, would upset the careful statutory balance that Congress struck between the exclusive rights of copyright owners, on the one hand, and the statutory privileges accorded owners of the tangible property, on the other. Blizzard attempts to sidestep § 117's safeguard against runaway copyright liability by artfully manipulating the wording of its EULA, which claims that the copies of the game that users purchase on DVD-ROM or store on their personal computers' hard drives do not actually belong to them. Because § 117 states that its protection applies to "the owner of a copy of a computer program," Blizzard contends that none of its millions of customers own their copies of WoW, according to the authority of the EULA Blizzard attaches to the game.

For purposes of § 117, the question reduces to a simple one: who owns the DVDs on which the WoW software is delivered? The district court erred in allowing Blizzard's license boilerplate to control that question. Instead, Ninth

Circuit precedent requires that a court to look to the “economic realities”¹ of the transaction and “the general tenor of the entire agreement”² and to “*analyze the arrangement at issue* and decide whether it should be considered a first sale[,]”³ something the lower court here failed to do.

ARGUMENT

I. Copyright Law Grants Important Rights to Owners of Copies

The Copyright Act draws a clear line of demarcation between ownership of a copyright and ownership of a material object (“copy or phonorecord” in the parlance of the Copyright Act) in which a copyrighted work is embodied.

17 U.S.C. § 202. Although the Act grants broad exclusive rights to the copyright owner, it also constrains the scope of those rights in order to preserve important rights for those who own copies of copyrighted works, limiting the restrictions that copyright holders might otherwise place upon ordinary use and commerce. These

¹ *Microsoft Corp. v. DAK Indus., Inc.*, 66 F.3d 1091, 1095 (9th Cir. 1995). The district court below did not cite to *DAK Indus.* at all. *See also Novell, Inc. v. Unicom Sales, Inc.*, No. C-03-2785, 2004 WL 1839117, at *9 (N.D. Cal. 17, 2004) (“In determining whether a transaction is a sale or a license, the Court reviews the substance of the transaction, rather than simply relying on the plaintiff’s characterization of the transaction”); *Applied Info. Mgt. Inc. v. Icart*, 976 F. Supp. 149, 154 (E.D.N.Y. 1997) (“Ownership of a copy should be determined based on the actual character, rather than the label, of the transaction by which the user obtained possession.”)

² *United States v. Wise*, 550 F.2d 1180, 1191 (9th Cir. 1977).

³ *Wise*, 550 F.2d at 1188-89 (emphasis added). Discussion of the lower court’s misreading of *Wise* follows.

limits on a copyright owner's exclusive rights reflect long-established common law principles, such as the disfavor shown to restraints on alienation for personal property and equitable servitudes imposed on chattel.⁴

For instance, the first sale doctrine provides that the owner of a particular copy of a work may distribute, sell, or otherwise dispose of a work without the authorization of the copyright holder. 17 U.S.C. § 109. This separation of copyright ownership from copy ownership allows the functioning of libraries, used book and record stores, video rental establishments, and the simple act of loaning a book to a friend.⁵

Similarly, the right to copy software into RAM as an essential step in using the software is provided by § 117(a), which limits the scope of a copyright owner's exclusive right to reproduce and adapt copyrighted software. Specifically, it states:

⁴ See *Bobbs-Merill Co. v. Straus*, 210 U.S. 339 (1908) (creating the first sale doctrine); *Quanta Computer, Inc. v. LG Elecs., Inc.*, 128 S. Ct. 2109, 2115-17 (2008) (describing the pedigree of similar exhaustion doctrine in patent law); Molly Shaffer Van Houweling, *The New Servitudes*, 69 Geo. L.J. 885 (2008).

⁵ Given their nearly identical statutory language, courts routinely look to cases applying Section 109 when interpreting “ownership of a copy” for purposes of Section 117, and vice-versa. See *DSC Commc’ns Corp. v. Pulse Commc’ns, Inc.*, 170 F.3d 1354, 1361 (Fed. Cir. 1999) (§ 117 case looking to § 109); *Vernor v. Autodesk, Inc.*, 555 F. Supp. 2d 1164, 1173 (W.D. Wash. 2008) (concluding that “identical phrases” used in §§ 109 and 117 have “identical meaning”); 2 Nimmer & Nimmer, *Nimmer on Copyright* § 8.12[B][1][d][i] (discussing both § 117 and § 109 precedents regarding “ownership of a copy”). Accordingly, this Court’s ruling will have repercussions for the first sale doctrine. At least one appeal raising similar issues in that context is currently pending before the Court, see *UMG Recordings, Inc. v. Augusto*, No. 08-55998.

Notwithstanding the provisions of section 106, it is not an infringement for the owner of a copy of a computer program to make or authorize the making of another copy or adaptation of that computer program provided:

(1) that such a new copy or adaptation is created as an essential step in the utilization of the computer program in conjunction with a machine and that it is used in no other manner . . .

17 U.S.C. § 117(a).⁶

Section 117's limits on the scope of exclusive rights are critical to the use of any software, due to the nature of computers and computer programs. In order for any program to be used at all, copies of it (or more precisely, portions of it) must be made within the temporary storage of a computer's RAM so that it may be readily accessed.⁷ Congress enacted § 117 in order to dispel any suggestion that the mere use of software could be viewed as copyright infringement, and thereby

⁶ The copying of portions of WoW into RAM is clearly an essential step in its utilization, and that it is used in no other manner. As in *Krause*, the creation of RAM copies is an automated process that necessarily occurs in the utilization of any program. WoW simply could not be utilized at all in conjunction with a computer without the creation of a RAM copy, thus the creation of RAM copies are an "essential step" in the utilization of WoW in conjunction with a computer. The RAM copies created automatically are used "in no other manner" because using the RAM copy is the only way to use WoW in *any* manner in conjunction with a computer. The "no other manner" requirement appears motivated by an interest in preventing the creation of illicit copies for separate use or distribution, and Glider is not a cracking or copying tool that enables infringement. The interpretation of each of the elements of § 117 are adeptly addressed at length in *Krause v. Titleserv, Inc.*, 402 F.3d 119, 125-30 (2d Cir. 2005).

⁷ *Sony Computer Ent., Inc. v. Connectix Corp.*, 203 F.3d 506, 600 n.1 (9th Cir. 2000).

prevent copyright owners from using copyright law to impose arbitrary post-sale use restrictions on software:

Obviously, creators, lessors, licensors, and vendors of copies of programs intend that they be used by their customers, so that rightful users would but rarely need a legal shield against potential copyright problems. It is easy to imagine, however, a situation in which the copyright owner might desire, for good reason or none at all, to coerce a lawful owner or possessor of a copy to stop using a particular program. One who rightfully possesses a copy of a program, therefore, should be provided with a legal right to copy it to that extent which will permit its use by that possessor.

Final Report, Commission on New Technological Uses of Copyrighted Works

(1978) at 13, *available at* <http://digital-law-online.info/CONTU/PDF/index.html>.⁸

In other words, the rightful owner of a copy of a computer program needs no “license” in order to make copies of the software on a computer insofar as necessary to use the software.

II. WoW Players Are the Owners of Their Copies of the Software

Blizzard attempts to subvert the Congressional objectives in enacting § 117 through bald assertions that, contrary to the realities of the transactions, no purchasers of WoW ever own the DVD on which the game software is delivered. Instead, in its view, every DVD sold eternally remains the property of Blizzard. According to this theory, a copyright holder need merely include a document with

⁸ The CONTU report serves as the only relevant legislative history explaining the genesis of § 117. *See Krause*, 402 F.3d at 122-23.

the work stating that the recipient and user of the work is not in fact its owner and that any uses of the work—even those uses not limited by the exclusive rights of a copyright owner—are only permitted by the grace of the copyright holder. This recitation would then subject users to any number of conditions whose violation would immediately result in copyright infringement, with its attendant statutory damages, injunctive relief, and potential criminal penalties.

Such an interpretation reads § 117 out of the statute, contrary to legislative intent and applicable case law. Instead of allowing self-serving boilerplate to trump § 117,⁹ the proper inquiry looks to the totality of the circumstances to decide whether the purchaser enjoys sufficient incidents of ownership to qualify as an owner of a copy. Furthermore, in the words of the leading treatise on copyright law:

For these purposes, whether the software vendor calls its subject contract a ‘license’ or a ‘bill of sale’ is immaterial. What matters is whether the erstwhile ‘licensee’ owns a *copy* of the computer program. If so, then Section 117 comes into play.

⁹ This Court need not address whether users waive statutory copyright privileges by acceding to the agreement, as the central question is who *owns* the DVDs on which the WoW software is delivered, rather than whether the purchaser has waived any copyright privileges for which she might otherwise qualify. If WoW purchasers own the DVDs on which the WoW software is delivered, then their “essential step” copying of that software falls outside the scope of the exclusive rights enjoyed by Blizzard. Accordingly, no contractual “waiver” can transmogrify those reproductions into copyright infringements, any more than private agreements could turn the resale of a lawfully purchased book into an infringing distribution

2 Nimmer on Copyright § 8.08[B][1][c].

A. Courts Agree that Ownership is Determined by Examining the Economic Realities, not Simply the “License” Label

This Court, among others, has long held that the ownership of a copy does not depend purely upon the say-so of a purported license agreement. *See, e.g., United States v. Wise*, 550 F.2d 1180, 1190-92 (9th Cir. 1977); *United States v. Atherton*, 561 F.2d 747, 750 (9th Cir. 1977). *Accord Krause*, 402 F.3d at 124; 2 Nimmer § 8.12[B][1][d][i]. Instead, courts examine the “economic realities” of the transaction, paying particular attention to whether the purchaser obtains perpetual possession of the physical copy in question.

i. Courts look to perpetual possession as the primary indicator of ownership.

In *United States v. Wise*, movie studios transferred copies of films under a variety of different agreements to users, with varying restrictions on how the films could be subsequently distributed and used. *Wise*, 550 F.2d at 1190. In analyzing whether these transferees could be characterized as “owners,” this Court carefully analyzed the terms of the contracts, regardless of how studiously the agreements avoided the use of the word “sale” or characterized themselves as “license” agreements, paying particular attention to whether the agreement required return of the copy—the hallmark of a rental or lease.

Most notably, in a contract between Warner Brothers and actress Vanessa Redgrave, the studio gave the actress a copy of the movie *Camelot* in exchange for the cost of the print and an agreement to use the print solely for personal use. *Wise*, 550 F.2d at 1192. The copy was to be “retained in [Redgrave’s] possession at all times.” *Id.* Further terms purported to prevent Ms. Redgrave from redistributing the print, reproducing it, or exhibiting it publicly. *Id.* Despite these restrictions, this Court ruled the transaction a sale, not a “license” or lease. *Id.* By contrast, another agreement between Paramount Pictures and Peter Bogdonavich that this Court found not to be a sale contained provisions requiring the print of the movie be returned upon the request of the studio. *Id.*

Finally, an agreement between ABC and Screen Gems that granted ABC the right to televise “Funny Girl” had a clause that required ABC to offer the prints back to Screen Gems or destroy them after the film aired. *Id.* at 1191-92. This Court expressed a willingness to view such an arrangement as a “sale-and-buy-back” but held that a sale could not be ruled out for a simpler reason: another clause gave ABC the right to elect to retain a copy. *Id.* at 1191. In each transaction the critical factor was not whether the studio used language expressly reserving title but whether the possessor was entitled to perpetual possession of the copy, and if so, this Court consistently found a sale.

In a leading case on § 117, *Krause v. Titleserv*, the Second Circuit looked to *Wise*, concluding:

[C]ourts should inquire into whether the [user] *exercises sufficient incidents of ownership over a copy of the program to be sensibly considered the owner of the copy for purposes of § 117(a)*. The presence of absence of formal title may of course be a factor in this inquiry, but the absence of formal title may be outweighed by evidence that the possessor of the copy enjoys sufficiently broad rights over it to be sensibly considered its owner.

Krause, 402 F.3d at 124 (emphasis added). In its ruling, the court refused to “contradict the Copyright Act’s ‘express objective of creating national, uniform copyright law. . . “ by looking to varying state laws to determine formal title. *Id.* at 123 (quoting *Comm. for Creative Non-Violence v. Reid*, 490 U.S. 730 (1989)). Instead, the court emphasized the importance of perpetual possession: “it seems anomalous for a user whose degree of ownership in a copy is so complete that he may lawfully use and keep it forever, or if so disposed, throw it in the trash. . . “ to not be considered its owner. *Id.*

Numerous district courts have also followed *Wise* in assessing ownership determinations under the first sale doctrine. In *Softman Prods Co. v. Adobe Sys., Inc.*, the court permitted distribution of certain computer programs despite a contrary “license agreement,” because it found the copies had been the subject of a first sale. *Softman*, 171 F. Supp. 2d 1075 (C.D. Cal. 2001). Adobe, which held the copyrights to several software works, distributed them in a bundle with an

agreement that purported to prohibit the recipient from unbundling them. *Id.* at 1080. In a transparent effort to thwart the first sale doctrine, Adobe argued that it did “not sell or authorize any sale of its software,” calling the transfer of the copies a mere “license” instead and arguing that unbundling and redistributing the software constituted copyright infringement. *Id.* at 1083. The court rejected Adobe’s argument, writing that

[Adobe’s] assertion is not accurate because copyright law in fact provides certain rights to owners of a particular copy. This grant of rights is independent from any purported grant of rights from Adobe.

Id.

In making this determination, the court followed this Circuit’s test in *Wise* and *DAK*, observing that “[i]t is well-settled that in determining whether a transaction is a sale, a lease, or a license, courts must look to the economic realities of the exchange.” *Id.* at 1084 (citing *DAK*, 66 F.3d 1091; *Wise* 550 F.2d 1180). Applying this test and examining “the circumstances surrounding the transaction,” the court found that they “strongly suggest[] that the transaction is in fact a sale rather than a license.” *Id.* at 1085. The determinative facts were again integrally tied to the user’s right to perpetual possession, as the court noted that “the license runs for an indefinite term without provisions for renewal,” that Adobe had received “full value for the product,” and that Adobe had passed on to the recipients all “risk that the product may be lost or damaged.” *Id.* The court

concluded, “a single payment for a perpetual transfer of possession is, in reality, a sale of personal property and therefore transfers ownership of that property, the copy of the software.” *Id.* at 1086.

Two more recent cases have followed the *Wise* precedent and have rightly emphasized the critical role of perpetual possession. In *UMG Recordings, Inc. v. Augusto*, the court addressed the defendant’s ownership of promotional music CDs that he sold on eBay. The court recognized the primacy of perpetual possession when it wrote,

The right to perpetual possession is a critical incident of ownership... Accordingly, the distributor of a copyrighted product’s intent to regain possession is strong evidence that the product was licensed, not sold, to the recipient. The absence of this intent is strong evidence that the product was sold.

Augusto, 558 F. Supp. 2d 1055, 1060 (C.D. Cal. 2008) (citation and footnote omitted).

The *Augusto* court recognized that perpetual possession was critical to this Court’s holdings in *Wise* and discussed how that factor featured so prominently in distinguishing the various film agreements. *Id.* at 1061. Then, in applying this key factor to its facts, the *Augusto* court wrote,

Here, UMG gives the Promo CDs to music industry insiders, never to be returned. The recipients are free to keep the Promo CDs forever. Nothing on the packaging of the Promo CDs or in the licensing label requires that the recipient return the Promo CDs to UMG. There are no consequences for the recipient should she lose or destroy the Promo CDs -- which UMG allegedly considers its property. UMG

does not request that any recipients return the Promo CDs and does not otherwise make any affirmative effort to recover possession of the Promo CDs. Further, it appears that UMG could not take these actions; UMG does not keep permanent records identifying who received which Promo CDs. Accordingly, the music industry insiders' ability to indefinitely possess the Promo CDs is a strong incident of ownership through a gift or sale.

Id. (citations and footnote omitted).

The *Augusto* court also noted that UMG's argument that it retained title to the copies was a transparent effort to restrain trade to prevent the transfer of its music. However, the court explained that, "This purpose was rejected 100 years ago by the Supreme Court. *See Bobbs-Merrill Co. v. Straus*, 210 U.S. 339 (1908) (rejecting a book publisher's attempt to restrict resale of a book through a label that prohibited sales for less than one dollar)." *Id.*

In perhaps the most careful and thoughtful opinion to apply the *Wise* precedent, the court in *Vernor v. Autodesk, Inc.* addressed whether Vernor was an owner of copies of Autodesk software he acquired from third parties and sought to resell on eBay. 555 F. Supp. 2d 1164 (W.D. Wash. 2008). After a thorough review of the facts, rationale, and holdings in *Wise*, the *Vernor* court wrote that "the critical factor is whether the transferee kept the copy acquired from the copyright holder. When the film studios required that prints be returned; the court found no sale. When the studios did not require the transferee to return the prints, the court

found a sale.” *Id.* at 1170.¹⁰ The *Vernor* court thus added to the chorus of courts understanding that the *Wise* decision rightly emphasized perpetual possession as “the critical factor” in determining copy ownership.

ii. Sufficient incidents of ownership may also be shown by other factors typically associated with sales.

While the critical and often dispositive factor is a transferee’s right to perpetual possession, additional factors may also be useful indicators for the court, such as whether the purchaser obtains a single copy for a single price, enjoys the right to destroy or discard, and stores the software on her own computer hardware.

¹⁰ The *Vernor* court also addressed those precedents that appear to focus on the restrictive terms in agreements accompanying copyrighted works and that find that more restrictive or draconian terms tend to suggest title to the copy remains with the transferee. 555 F. Supp. 2d at 1171-72. The *Vernor* court resolved what it deemed an “irreconcilable conflict” between these cases and *Wise*, guided by the principle that a subsequent panel of the Ninth Circuit cannot overrule an earlier panel absent intervening Supreme Court precedent or *en banc* authority. *See Miller v. Gammie*, 335 F.3d 889, 900 (9th Cir. 2003); *Chisolm v. TranSouth Fin. Corp.*, 95 F.3d 331, 337 n.7 (4th Cir. 1996); *Grabowski v. Jackson County Pub. Defenders Office*, 47 F.3d 1386, 1400 (5th Cir. 1995) (Smith, J., concurring in part and dissenting in part). With no such intervening authority, the *Vernor* court correctly concluded that it, like this Court, was bound to follow *Wise*. *Id.* at 1172-75. Notably, this includes not just the *Wise* holdings, but its mode of analysis that focused on perpetual possession. *See County of Allegheny v. ACLU Greater Pittsburgh Chapter*, 492 U.S. 573, 668 (1989) (“As a general rule, the principle of *stare decisis* directs us to adhere not only to the holdings of our prior cases, but also to their explications of the governing rules of law.”) (Kennedy, J., concurring in part and dissenting in part); Antonin Scalia, *The Rule of Law as a Law of Rules*, 56 U. Chi. L. Rev. 1175, 1177 (1989).

“If a transaction involves a single payment giving the buyer an unlimited period in which it has a right to possession, the transaction is a sale.” *Softman*, 171 F. Supp. 2d at 1086. Thus, where the purchaser obtains a single copy of the software for a single price, which the purchaser pays at the time of the transaction, and which constitutes the entire payment for the “license;” and the license runs for an indefinite term without provisions for renewal, the transaction is a sale and the purchaser an owner. *Softman*, 171 F. Supp. 2d at 1085; *DSC*, 160 F.3d at 1362 (“the fact that...the possessor’s rights were obtained through a single payment, is certainly relevant to whether the possessor is an owner”); *Telecomm Tech. Svcs., Inc. v. Siemens Rolm Comms., Inc.*, 66 F. Supp. 2d 1306, 1325 (N.D. Ga. 1997).

The right to dispose of a copy (as opposed to an obligation to return) implies that the parties intended the buyer to have permanent possession of the copy. *Krause*, 402 F.3d at 124. If so, that fact would tend to favor ownership. *See also Unicom*, 2004 WL 1839119 at *9 (holding that a requirement that software be returned at conclusion of license term militated against finding of ownership).

Krause also relies upon the fact that the software at issue was stored on the buyer’s hardware. 402 F.3d at 124. *See also Stuart Weitzman, LLC v. MicroComputer Resources, Inc.*, 510 F.Supp.2d 1098, 1108 (S.D. Fla. 2007), *vacated on other grounds*, 542 F.3d 859 (11th Cir. 2008). Because the “ownership of a copy” inquiry is always directed at who owns the physical media in which the

software is embodied, this factor reflects a practical consideration that if the software is delivered or stored on computer hardware owned by the purchaser, then by definition the purchaser owns the media (i.e., the hardware in which the software is delivered). It would be bizarre to assume, absent strong contrary evidence, that the software vendor somehow retained an ownership interest in the portions of the computer hard drive on which the software was recorded.

In contrast to these factors, the district court below erroneously focused on the ways in which Blizzard's license agreements restrict certain *uses* of the WoW software. Restrictions on post-sale uses of software are generally relevant to *copyright* permissions, rather than *copy* ownership. While these use restrictions may answer questions about a purchaser's authority to do acts that might otherwise infringe the copyright (e.g., Is the making of copies beyond those that are essential for use limited or forbidden? Is the preparation of derivatives limited or forbidden? Is public performance forbidden?), they generally shed little light on the question of who owns the physical medium on which the software was delivered. *See Amer. Int'l Pictures, Inc. v. Foreman*, 576 F.2d 661, 664 (5th Cir. 1978) ("Even if the copyright holder places restrictions on the purchaser in a first sale (*such as specifying the permissible uses of the article*), the buyer's disregard of the restrictions on resale does not make the buyer or the person who buys in the secondary market liable for infringement.") (emphasis added).

Consideration of the foregoing factors makes it clear that the purchasers own the DVDs on which WoW software is delivered. Blizzard sells single copies on DVDs for a single price. Purchasers are entitled to perpetual possession of the DVD, suffer no penalty for discarding the DVD, and store the software at all times on computer hardware that they undisputedly own. They are also entitled to transfer the software to another user without prior permission from Blizzard, subject only to the obligation to delete existing copies.¹¹

B. The District Court Erred by Declining to Follow Controlling Precedent, Misreading Precedent, and Misquoting Precedent

Rather than considering the “economic realities” of the transaction and evaluating all of the relevant “incidents of ownership,” the lower court misread dicta and ambiguous language in three of this Court’s prior rulings. The Court should take this opportunity to clarify those rulings in light of its prior binding holding in *Wise*.

i. The district court declined to follow *Wise*, which is controlling precedent in the Ninth Circuit on the issue of copy ownership.

As an initial matter, the district court committed reversible error in declining to follow *Wise*. The court wrote that it declined to follow *Wise* because it involved § 109 instead of § 117 and because it believed that following *Wise* would require it

¹¹ See MDY ER at P3 (WoW EULA from Feb. 2, 2007), § 3(B); MDY ER at S3 (WoW EULA from Nov. 2004), § 3(B).

to disregard *Wall Data v. Los Angeles County Sherriff's Dept.*, 447 F.3d 769 (9th Cir. 2006). *MDY Indus., LLC v. Blizzard Ent., Inc.*, 2008 WL 2757357, *10 (D. Ariz. Jul. 14, 2008). However, as discussed above, there is no basis on which to distinguish questions of copy ownership under § 109 and § 117. Accordingly, as cogently explained by the district court in *Vernor v. Autodesk*, the appropriate holding would have been to follow *Wise*, as the earlier precedent. *See supra* note 10.

The district court also attempts to justify its departure from *Wise* by asserting in a footnote that, had it followed the *Wise* rule, the result would be the same. This, however, was based on a cursory misreading of the *Wise* opinion. The district court wrote that, “Under *Wise*, a transaction is a license where the recipient is required to the return the copy to the copyright owner *or the copyright owner retains title to the copy.*” *MDY*, 2008 WL 2757357 at *110 n.7. Thus the district court attempted to reduce *Wise* to a disjunctive test where a mere assertion of retention of title by the copyright owner could satisfy the test, notwithstanding any of the other terms or economic realities of the transaction. This is not the *Wise* holding. Instead, as has already been discussed, the *Wise* court looked to the “general tenor of the entire agreement” and said that courts must “analyze the arrangement at issue” to determine whether a first sale occurred. If a single

assertion by the copyright owner could instead be dispositive, then the *Wise* court would not have analyzed the agreements so thoroughly.

ii. The district court's reliance on *Wall Data* is based on dicta as well as a misquotation that led it to consider irrelevant restrictions on use.

The district court's reliance on *Wall Data* is further misplaced because that case's discussion of copy ownership is effectively dicta. The *Wall Data* court went out of its way to indicate that "a more fundamental reason" for its decision was that the Sheriff's Department's actions would not constitute an "essential step" as required by § 117, so deciding whether the Department owned its copies was not necessary for the Court's decision. *Wall Data*, 447 F.3d at 786 n.9. The Court could have phrased these as "alternate" holdings but chose instead to call one "more fundamental."

In another instance of error, the district court here misread *Wall Data*, erroneously concluding that *use* restrictions were dispositive on the question of ownership. In relying on *Wall Data*, the district court stated that *Wall Data* looked to "significant restrictions on the *use* or transfer of the copy" whereas *Wall Data* had spoken of "significant restrictions on the purchaser's ability to *redistribute* or transfer that copy." *Cf. MDY*, 2008 WL 2757357 at *9 (emphasis added) and *Wall Data*, 447 F.3d at 785 (emphasis added). This misquoting potentially opens up for

investigation an overly broad set of factors not relevant to the question of copy ownership. *See* Appellant’s Opening Br. at 17-18.

iii. The district court’s reliance on *MAI* and *Triad* is based on a misreading of the scope of their holdings.

The district court also relied on two other Ninth Circuit cases, *MAI Sys. Corp. v. Peak Computer, Inc.*, 991 F.2d 511 (9th Cir. 1993) and *Triad Sys. Corp. v. Se. Express Co.*, 64 F.3d 1330 (9th Cir. 1995) in concluding that “licensees of a computer program do not own their copy of the program.” *MDY*, 2008 WL 2757357 at *8. Those cases, however, shed little light on the “economic realities” surrounding the transactions in question and thus do not support such a broad a *per se* rule.

The bulk of *MAI*’s copyright discussion is devoted to the question of whether temporary copies stored in RAM may be considered “copies” under the Copyright Act. By contrast, *MAI*’s discussion and analysis of ownership under § 117 is markedly cursory. In its entirety, that discussion reads, “Since *MAI* licensed its software, the Peak customers do not qualify as ‘owners’ of the software and are not eligible for protection under § 117.” *MAI*, 991 F.2d at 519 n.5. As commentators have pointed out, the opinion provides no details regarding the facts that underlay the court’s conclusion as to ownership. *See* David Nimmer, *Brains and Other Paraphernalia of the Digital Age*, 10 Harv. J. L. & Tech. 1, 21-22 (1996), available at

<http://jolt.law.harvard.edu/articles/pdf/v10/10HarvJLTech001.pdf> (“Which facts actually pertained in *MAI v. Peak*? It is impossible to say, given the court’s failure to advert to the crucial distinction between ownership of physical copies and ownership of copyright interest.”). Accordingly, the district court over-reads *MAI v. Peak* when it suggests that *MAI* establishes a *per se* rule denying all “licensees” the benefits of § 117. In addition, as discussed above, such a reading would directly contradict this Court’s prior ruling in *Wise*. See *Vernor v. Autodesk*, 555 F. Supp. 2d at 1172-73 (discussing inconsistency between *MAI* and *Wise* and concluding that *Wise* is binding authority). Finally, to the extent *MAI* can be read to establish a *per se* rule that a purported “licensee” cannot be an owner,—it has been thoroughly discredited by courts and commentators alike. See, e.g., *Wall Data*, 447 F.3d at 786 n.9 (“We recognize that our decision in *MAI* has been criticized.”); *DSC*, 170 F.3d at 1360 (citing 2 *Nimmer on Copyright* § 8.08[B][1], at 8-119 to 1-121 (3d ed.1997)); *Vernor*, 555 F. Supp. 2d at 1171; David Nimmer, *Brains and Other Paraphernalia of the Digital Age*, 10 Harv. J. L. & Tech 1, 21-25 (1996); 4 William Patry, *Patry on Copyright* § 11.34 (2009) (footnotes omitted).

Triad provides even less analysis of its determination of copy ownership. As it discussed the various regimes under which software users paid the copyright holder, the opinion cites § 117 to *exclude* from potential infringement users who were clearly and explicitly owners of their software. *Triad*, 64 F.3d at 1333.

Although the opinion continues to analyze the other users as though they were not owners of their copies, it, like *MAI*, provides no rationale for its determination of ownership. Instead, the copyright analysis in *Triad* focused nearly exclusively on determining whether the user's RAM copies fell within the scope of fair use. *Id.*

In short, the district court over-read the ambiguous language and dicta contained in *Wall Data*, *Triad*, and *MAI* in a manner that set those rulings at odds with this Court's prior ruling in *Wise*, as well as the reasoned view of the Second Circuit in *Krause v. Titleserv* and copyright law's leading commentators. This Court should take this opportunity to clarify its prior holdings, reaffirm that *Wise* represents the earliest, and thus binding, holding, and embrace the "economic realities" approach utilized by the Second Circuit and numerous district courts.

C. Blizzard's Section 1201 Claims Fail Due to the Lack of Any Nexus between Circumvention and Infringement.

If this court concludes that WoW players own the WoW DVDs that they purchase, that conclusion would also call into question Blizzard's § 1201 claims against MDY insofar as it would eliminate any "nexus" between a WoW player's use of Glider and any copyright infringement.

In order to prove a violation of the anti-circumvention provisions of 17 U.S.C. § 1201, Blizzard must prove:

- (1) ownership of a valid copyright on a work, (2) effectively controlled by a technological measure, which has been circumvented,
- (3) that third parties can now access (4) without authorization, in a

manner that (5) infringes or facilitates infringing a right protected by the Copyright Act...

Chamberlain Group, Inc. v. Skylink Techs., Inc., 381 F.3d 1178, 1203 (Fed. Cir. 2004).

In *Chamberlain*, the Federal Circuit held that Chamberlain had failed to show “the necessary fifth element of its claim, the critical nexus between access and protection.” *Id.* Chamberlain’s case failed, in part, due to a failure to allege or explain how the alleged circumvention facilitated infringement of any right that the Copyright Act protects.

Blizzard faces the same problem here. If the purchasers of its software own the DVDs on which the software is delivered, they also have a § 117 right to make essential RAM copies. Accordingly, there is no possibility that their making of RAM copies can result in infringement. Any circumvention facilitated by Glider fails to have the necessary nexus with infringement required for liability under § 1201.¹²

CONCLUSION

In enacting § 117, Congress struck a careful balance between the exclusive rights of copyright owners, on the one hand, and the statutory privileges accorded

¹² At a minimum, the Court should vacate and remand the lower court ruling in order to afford the district court an opportunity to consider whether any infringements remain after the operation of § 117 is considered.

owners of the tangible property embodying those works, on the other. Blizzard cannot, through the expedient of boilerplate “license” recitations, unilaterally frustrate the purposes and objectives of Congress. By reaffirming the importance of evaluating ownership in light of the economic realities of the transactions, this Court can protect the prerogatives of consumers and restore the statutory balance struck by Congress.

s/ Brian W. Carver
Brian W. Carver
California State Bar No. 244878
University of California, Berkeley
School of Information
102 South Hall
Berkeley, CA 94720-4600
(510) 643-1469
Counsel for Amicus Public Knowledge

Sherwin Siy
Jef Pearlman
Public Knowledge
1875 Connecticut Ave. NW
Suite 650
Washington, DC 20009
(202) 518-0020

September 23, 2009

BRIEF FORMAT CERTIFICATION

Pursuant to the Federal Rules of Appellate Procedure 29(d) and 32(a)(7)(B) & (C), I certify that the brief of *amicus curiae* is Times New Roman 14-point proportional typeface and contains 6,299 words.

Dated: September 23, 2009

Respectfully submitted:

s/ Brian W. Carver

Brian W. Carver
California State Bar No. 244878
University of California, Berkeley
School of Information
102 South Hall
Berkeley, CA 94720-4600
(510) 643-1469
*Counsel for Amicus Curiae,
Public Knowledge*

CERTIFICATE OF SERVICE

I hereby certify that I electronically filed the foregoing with the Clerk of the Court for the United States Court of Appeals for the Ninth Circuit by using the appellate CM/ECF system on September 23, 2009.

I certify that all participants in the case are registered CM/ECF users and that service will be accomplished by the appellate CM/ECF system.

s/ Brian W. Carver
Brian W. Carver
California State Bar No. 244878
University of California, Berkeley
School of Information
102 South Hall
Berkeley, CA 94720-4600
(510) 643-1469
Counsel for Amicus Curiae,
Public Knowledge